

No. 10-1219

In the Supreme Court of the United States

DAVID J. KAPPOS, UNDER SECRETARY OF COMMERCE
FOR INTELLECTUAL PROPERTY AND DIRECTOR,
UNITED STATES PATENT AND TRADEMARK OFFICE,
PETITIONER

v.

GILBERT P. HYATT

*ON PETITION FOR A WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT*

REPLY BRIEF FOR THE PETITIONER

NEAL KUMAR KATYAL
*Acting Solicitor General
Counsel of Record
Department of Justice
Washington, D.C. 20530-0001
SupremeCtBriefs@usdoj.gov
(202) 514-2217*

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The Federal Circuit held that a disappointed patent applicant may challenge the considered decision of the United States Patent and Trademark Office (PTO) based on evidence that the applicant could have presented to the PTO. The court compounded that error by holding that the district court should engage in de novo review of any issues to which the new evidence pertains, including ultimate questions of patentability. As the petition for a writ of certiorari explains, that decision disregards fundamental principles of administrative review, and it undermines the PTO's ability to exercise its expert judgment in determining whether patents should issue.

In defending the Federal Circuit’s approach, respondent argues that Section 145 is not an action for judicial review of the PTO’s decision. Respondent further contends that, because Section 145 does not wholly preclude the introduction of new evidence, the plaintiff in such a suit may introduce evidence that it failed without cause to present to the agency. Those arguments lack merit. This Court recognized long ago that actions under Section 145’s statutory predecessor involved judicial review of agency determinations, see *Morgan v. Daniels*, 153 U.S. 120, 124 (1894), and the fact that new evidence is admissible in such actions does not alter the fundamental nature of the proceeding. The extent to which new evidence is admissible in a Section 145 suit, and the standard of review under which the PTO’s decision should be evaluated, therefore should be determined in light of the background principles that govern review of agency action. Respondent’s efforts to minimize the anomalous nature and perverse consequences of the Federal Circuit’s decision are similarly unpersuasive.

I. THE FEDERAL CIRCUIT’S DECISION DISREGARDS ADMINISTRATIVE-LAW PRINCIPLES AND DEPARTS FROM THE PREVAILING UNDERSTANDING OF SECTION 145’S PREDECESSOR STATUTE

A. Respondent contends (Br. in Opp. 12) that Section 145 is a freestanding “civil action *to obtain a patent*” from the district court, rather than an action for judicial review of an administrative decision. That view is inconsistent with the statutory text and with this Court’s decision in *Morgan*.

Congress has authorized the PTO to determine whether a patent should issue. See 35 U.S.C. 2(a). Section 145 provides that a patent applicant “dissatisfied with the decision” of the PTO may seek a “remedy by civil action against the Director” in district court. 35 U.S.C. 145. And if the court

in a Section 145 suit concludes that the plaintiff “is entitled to receive a patent for his invention,” the court does not issue the patent itself; rather, its decision “authorize[s] the Director to issue such patent on compliance with the requirements of law.” *Ibid.* Those aspects of the statutory text make clear that Section 145 affords an avenue for judicial review of the PTO’s determination. Indeed, respondent acknowledges (Br. in Opp. 18) that, when a Section 145 plaintiff does *not* introduce new evidence, the district court must resolve the case by applying the deferential standards that govern review of agency action under the Administrative Procedure Act (APA), 5 U.S.C. 701 *et seq.* See *Dickinson v. Zurko*, 527 U.S. 150, 164 (1999).

The fact that new evidence is sometimes admissible in a Section 145 action does not alter the administrative-review character of the proceeding. In *Morgan*, the Court explained that the objective of an action under Revised Statutes § 4915 (1878) (R.S. 4915) (Section 145’s predecessor) was to “set aside” the determination made by the “executive department[] * * * charged with the administration of the patent system.” 153 U.S. at 124. The Court accordingly applied administrative-law principles in crafting a deferential standard to govern review of the Patent Office’s decision. *Id.* at 124-125. The introduction of evidence not considered by the PTO does not alter the plaintiff’s objective, or the fact that the ultimate question for the court is whether the PTO’s decision should stand.

Respondent also argues (Br. in Opp. 11) that Section 145’s use of the term “civil action” indicates that “Congress intended a *de novo* proceeding.” That argument is likewise inconsistent with respondent’s concession that a deferential standard applies when a Section 145 plaintiff does not introduce new evidence, and it is unpersuasive on its own terms, since Congress often authorizes district courts to exercise

original jurisdiction over suits for review of agency action. See, *e.g.*, *United States v. Carlo Bianchi & Co.*, 373 U.S. 709, 715 (1963); Pet. 16. Contrary to respondent’s contention (Br. in Opp. 11-12), *Chandler v. Roudebush*, 425 U.S. 840 (1976), does not suggest that use of the phrase “civil action,” without more, denotes an independent proceeding. Rather, the Court in *Chandler* relied on the statutory structure, rather than on the phrase “civil action,” in concluding that Title VII authorized “trials *de novo*.” See Pet. 15.¹

Respondent also asserts (Br. in Opp. 14-15) that, because 35 U.S.C. 141 and 144 provide for a direct on-the-record appeal of the PTO’s decision, Section 145 must be construed to permit the introduction of new evidence without limitation. That is a false dichotomy. To be sure, Section 144’s express requirement that review in a Section 141 appeal be “on the record before the [PTO],” combined with the absence of similar language in Section 145, indicates that Section 145 plaintiffs are not wholly foreclosed from introducing evidence that was not before the agency. But the fact that Section 145 allows new evidence under *some* circumstances does not mean that the introduction of such evidence is unconstrained by background administrative-law principles. The approach advocated by the government and by the dissenters below, under which the plaintiff in a Section 145 action may introduce evidence that he had no reasonable opportunity to present to the PTO, preserves distinct roles for Sections 141 and 145 while respecting usual rules of agency exhaustion. See pp. 5, 7, 9-10, *infra*.

¹ If the use of the term “civil action,” which refers to an action in district court, see Fed. R. Civ. P. 2, were sufficient to mandate a *de novo* proceeding, then numerous statutes authorizing administrative review in district court would require independent proceedings. See, *e.g.*, 42 U.S.C. 405(g).

B. Because a Section 145 plaintiff seeks to overturn the PTO's denial of his patent application, the admissibility of new evidence and the standard of review should be informed by the background principles that govern judicial review of agency action. Respondent's contrary arguments lack merit.

1. By allowing respondent to introduce evidence that he failed without cause to present to the PTO, the court of appeals condoned a flagrant breach of well-established exhaustion principles. See Pet. 14. Respondent argues (Br. in Opp. 22-23) that exhaustion rules forbid raising new *issues* but not new *evidence*. But the withholding of evidence from the PTO undermines the agency's ability to perform its statutory functions and deprives the reviewing court of the agency's expertise. See, e.g., *Tagg Bros. & Moorhead v. United States*, 280 U.S. 420, 444-445 (1930). Contrary to respondent's suggestion (Br. in Opp. 22), the litigation conduct approved by the court of appeals directly implicates the concerns that underlie exhaustion requirements, even though respondent pursued an administrative appeal on the issue that he ultimately raised in court.

2. The court of appeals further held that, when a Section 145 plaintiff introduces evidence that was not before the agency, the court should resolve de novo all issues to which the new evidence pertains. As the petition explains (Pet. 16-18), that holding disregards administrative-deference principles, and it exacerbates the adverse effects of the court's admissibility ruling by encouraging patent applicants to withhold evidence from the PTO.

Respondent does not dispute that the decision below permits district courts to engage in de novo review not only of the PTO's subsidiary factual determinations, but also of its ultimate conclusions on questions of patentability. See Pet. 17. Instead, respondent argues (Br. in Opp. 29) that de

novo review is justified when an applicant presents new evidence because “there is no prior decision on that record for the district court to review.” But even in such cases, the PTO *has* made a decision within its delegated authority on the ultimate question of patentability, and it has applied its expertise to the evidence before it. The presence of new evidence does not justify discarding the bedrock principle that a court should not overturn the agency’s decision without a high degree of confidence that the agency erred. See *INS v. Orlando Ventura*, 537 U.S. 12, 16 (2002); *Morgan*, 153 U.S. at 125. Rather, when a remand to the agency is infeasible, the court may give the new evidence greater weight but should overturn the PTO’s decision only upon a “thorough conviction” that the plaintiff is entitled to a patent. See Pet. 23-25; *Morgan*, 153 U.S. at 125.²

Contrary to respondent’s contention (Br. in Opp. 28-29), the government raised the standard-of-review issue before the Federal Circuit. The government explained that the district court should not overturn the PTO’s decision “based on evidence the agency never had the opportunity to consider unless that evidence ‘in character and amount carries thorough conviction’ that the agency’s decision was mistaken.” Pet. C.A. En Banc Br. 29 (quoting *Morgan*, 153 U.S. at 125). And the Federal Circuit squarely resolved the issue, holding that, “[w]hen new evidence is introduced” in a Section 145 suit, the court should “make de novo fact findings if the evidence conflicts with any related [PTO] find-

² Respondent relies in part (Br. in Opp. 29) on this Court’s statement in *Zurko* that the presence of new evidence “makes a factfinder of the district judge.” 527 U.S. at 164. That observation, however, does not imply any particular view as to the standard of proof the court should apply when a Section 145 plaintiff is allowed to introduce new evidence. The Court in *Zurko* had no occasion to address that issue.

ing.” Pet. App. 32a; see *id.* at 73a-74a (Dyk, J., joined by Gajarsa, J., dissenting)

C. The Federal Circuit’s decision departs from the judicial understanding of R.S. 4915 that prevailed in 1952, when Congress reenacted that provision as Section 145. In accordance with *Morgan*, appellate courts construed R.S. 4915 in light of administrative-law principles, limiting the admissibility of new evidence and evaluating that evidence under *Morgan*’s “thorough conviction” standard of review. See Pet. 18-23. When Congress reenacted the provision with “no fundamental change,” S. Rep. No. 1979, 82d Cong., 2d Sess. 7 (1952), it ratified that prevailing understanding.

Respondent contends (Br. in Opp. 16-17) that, because this Court had construed R.S. 4915 to permit the introduction of new evidence, the 1952 reenactment of Section 145 reflected Congress’s intent to allow such evidence to be introduced without limitation. The decisions on which petitioner relies, however, did not concern the nature of an R.S. 4915 action and had no occasion to address the circumstances under which new evidence would be admissible. See Pet. 21 n.4; *Butterworth v. United States ex rel. Hoe*, 112 U.S. 50, 61 (1884) (R.S. 4915 action is “heard upon all competent evidence”—that is, all admissible evidence.); *Gandy v. Marble*, 122 U.S. 432, 439 (1887); *In re Hien*, 166 U.S. 432, 439 (1897); see also *Hoover Co. v. Coe*, 325 U.S. 79, 83 (1945). Respondent identifies no reason to conclude that Congress would have viewed these decisions as holding that new evidence is admissible without limitation, or that it intended to adopt that understanding when it recodified R.S. 4915 shortly after it enacted the APA. The chain of inferences respondent asks this Court to draw is particularly unlikely given the *Morgan* Court’s characterization of R.S. 4915 actions as suits to “set aside” administrative determinations, 153 U.S. at 124, and given the many interven-

ing appellate decisions that had imposed limits on new evidence and the scope of review.

Respondent dismisses (Br. in Opp. 21-22 n.14) as dicta the limitations on evidence not presented to the PTO that were articulated in pre-1952 decisions. In fact, the courts that issued those decisions applied the evidentiary limitations they announced. See, *e.g.*, *Globe-Union, Inc. v. Chicago Tel. Supply Co.*, 103 F.2d 722, 728 (7th Cir. 1939) (admitting evidence in absence of suggestion that applicant “did not exercise due diligence”); *Barrett Co. v. Koppers Co.*, 22 F.2d 395, 397 (3d Cir. 1927) (excluding evidence that was “wholly within [party’s] possession and control at the interference proceeding”); *Knutson v. Gallsworthy*, 164 F.2d 497, 509 (D.C. Cir. 1947) (court could consider evidence that was not intentionally withheld). And even when courts admitted new evidence in R.S. 4915 proceedings, they applied *Morgan’s* deferential standard of review, requiring a “thorough conviction” that the Patent Office had erred. See Pet. 21-22 (citing cases).

II. THE QUESTIONS PRESENTED ARE IMPORTANT AND WARRANT REVIEW

A. The Federal Circuit’s decision conflicts not only with the pre-1952 appellate decisions described above, Pet. 25-27, but also with the post-1952 decisions of the D.C. Circuit, the court that exercised jurisdiction over Section 145 appeals before the establishment of the Federal Circuit. That court held that evidence that reasonably could have been presented to the Patent Office was not admissible in a Section 145 suit, and that the Patent Office’s decision could be overturned only upon a “thorough conviction” that the agency had erred. See *DeSeversky v. Brenner*, 424 F.2d 857, 858 n.5 (D.C. Cir. 1970); *California Research Corp. v. Ladd*, 356 F.2d 813, 820 n.18 (D.C. Cir. 1966). And while

the D.C. Circuit in *DeSeversky* and *Ladd* referred to the Section 145 proceeding as a “trial de novo” (see Br. in Opp. 23-24 n.17), the court evidently did not view that label as inconsistent with the administrative-law-based limitations that it imposed on new evidence and the scope of judicial review. See *Ladd*, 356 F.2d at 818 n.12.

B. The decision below subjects the PTO’s decisions to an unprecedented form of heightened judicial scrutiny, cf. *Zurko*, 527 U.S. at 165, and establishes a regime that will undermine the PTO’s effectiveness by encouraging patent applicants to withhold evidence. Respondent downplays the significance of the Federal Circuit’s decision, arguing (Br. in Opp. 24) that Section 145 has long been understood to permit the introduction of new evidence. In holding that new evidence is admissible *without limitation*, however, and that administrative-law principles have little relevance to Section 145 actions, the Federal Circuit departed sharply from the established understanding of Section 145 and its predecessor R.S. 4915. See Pet. 18 n.2; 4 Donald S. Chisum, *Chisum on Patents* § 11.06[3][c][iii], at 11-625 to 11-627 (2005) (admissibility of new evidence is “tempered” by limitations on withheld evidence and judicial deference to PTO).

The decision below also creates a pronounced and unjustified disparity between the review afforded in Section 141 and Section 145 actions. And the promise of de novo review on any patentability issue to which new evidence is relevant provides a strong incentive to withhold evidence from the PTO in order to proffer it in a Section 145 action. As respondent observes (Br. in Opp. 26), certain countervailing incentives—*e.g.*, the applicant’s desire to maximize his chances of success in the agency proceedings, and the added expense associated with Section 145 actions—may encourage applicants to present all their evidence to the

PTO and thereby mitigate the practical impact of the court's decision. But the existence of such incentives does not distinguish disappointed patent applicants from plaintiffs who challenge other types of agency action. Such plaintiffs likewise have an interest in prevailing before the agency and thereby avoiding the expense of a lawsuit, but those incentives are routinely supplemented by rules requiring exhaustion and timely presentation of evidence. In any event, a rule that rewards applicants for withholding evidence from the agency does substantial harm to the patent system even if it does not affect every applicant's behavior. The Federal Circuit's decision will create the strongest incentive "to bypass the PTO" in those "cases where the patent is commercially significant and the costs of a separate proceeding can be justified"—yet those are the cases in which "PTO review is most important." Pet. App. 79a-80a (Dyk, J., joined by Gajarsa, J., dissenting).

Respondent's policy arguments (Br. in Opp. 25-26) do not justify the Federal Circuit's rule. Contrary to respondent's suggestion (Br. in Opp. 25), the decision encompasses all new evidence that is material to patentability, not simply the background materials presented for the benefit of a non-expert judge. This case is a prime example, as the PTO examiner was unable to find support for the claims despite his expertise, and respondent's declaration would have been highly relevant to the examiner's written-description concerns. As the district court found, Pet. App. 187a-188a, respondent had ample opportunity to respond to the examiner's concerns before his claims were rejected, and he was on notice that he bore the burden of demonstrating error before the Board. See Pet. 5-6. By excusing non-compliance with the PTO's evidence-presentation rules, the court's decision disrupts the PTO's efforts to regulate its examination process.

C. The Court recognized in *Morgan* that suits challenging Patent Office denials of patent applications, like validity challenges raised as defenses to infringement actions, implicated generally applicable principles of deference to administrative authority and expertise. See 153 U.S. at 123-124; Pet. 29-30. In *Microsoft Corp. v. i4i Ltd. Partnership*, No. 10-290 (argued Apr. 18, 2011), this Court is considering the application of those principles to suits in which an alleged infringer argues that an issued patent is invalid. The Court's decision in *Microsoft* therefore may shed light on the proper resolution of this case, and the petition should be held for *Microsoft*. Ultimately, however, *Microsoft* is unlikely fully to resolve the questions presented here. See Pet. 31. Both questions are sufficiently important to warrant plenary review because the Federal Circuit has adopted a regime that disregards fundamental administrative-law principles and undermines the PTO's delegated authority to determine whether patents should issue.

CONCLUSION

For the foregoing reasons and those stated in the petition, the petition for a writ of certiorari should be held pending this Court's decision in *Microsoft v. i4i Ltd. Partnership*, No. 10-290 (argued Apr. 18, 2011).

Respectfully submitted.

NEAL KUMAR KATYAL
Acting Solicitor General

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